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President: Mr. ATHULATHMUDALI (Sri Lanka)

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PURSUANT TO CONFERENCE RESOLUTION 94 (IV), REVIEW OF ACTIONS CONCERNING THE INDEBTEDNESS OF DEVELOPING COUNTRIES, IN PARTICULAR, THE DISCERNING OF FEATURES WHICH COULD PROVIDE GUIDANCE IN OPERATIONS RELATING TO DEBT PROBLEMS (agenda item 2) (continued) (TD/B/670, TD/B/685, TD/B/690, TD/B/695, TD/AC.2/9)

CONSIDERATION OF PROPOSALS MADE BY DEVELOPING COUNTRIES AND OF OTHER VIEWS EXPRESSED AT THE FIRST AND SECOND SESSIONS OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON THE EXTERNAL INDEBTEDNESS OF DEVELOPING COUNTRIES AS REPORTED IN DOCUMENTS TD/B/670 AND TD/B/685 AND Add.1-3 (agenda item 3) (continued) (TD/B/670, TD/B/685 and Add.1-3, TD/B/690, TD/B/695, TD/L.124)

CONSIDERATION OF BOARD DECISION 149 (XVI) RELATING TO LEAST DEVELOPED, DEVELOPING ISLAND AND LAND-LOCKED DEVELOPING COUNTRIES (agenda item 4) (continued) (TD/B/681, TD/B/690, TD/B/695)

1. Mr. TARZI (Afghanistan) said that the economic future of a large sector of humanity depended on the outcome of the Board's present session: the developing, least developed and most seriously affected countries were at a crossroads in their history, and their future course would depend to a large extent on how the Board responded to their needs, hopes and aspirations. The economic and social, and at times even the political, implications of their debt problems, and the possible remedies, had been analysed in the many studies published by UNCTAD and related bodies. The time had come to develop an integrated and concerted programme of action and apply it without delay. The present session should enable Board members to consider the proposals made by the developing countries at the first and second sessions of the Intergovernmental Group of Experts and also to consider Board decision 149 (XVI) on the least developed, land-locked and island developing countries. The session was taking place at a crucial time in world history, since the debt problem threatened to become a chronic malaise which, if not arrested in time, would have disastrous consequences for the economic and social development of the developing countries, and in particular of the least developed, low per capita income countries.

2. The Conference on International Economic Co-operation had attacked the problem courageously, but it had been unsuccessful, probably because of a lack of political will, but also because no least developed country had been represented. International problems could not be solved in a restricted framework.

3. The indebtedness of the developing countries, and particularly that of the least developed and the most seriously affected countries, had rightly become a subject of increasing concern for the world community. The external debt of the developing countries, which had been approximately $40 billion in 1964, had now risen to $230 billion. If that figure was compared with the f.o.b. export figure for the developing countries, which, according to UNCTAD forecasts, would be $137 billion in 1970, it would be noted that the debt servicing of those countries would absorb 25 per cent of their export earnings for the current year. That would result in reverse flows, which would mean a massive flow of real resources from the developing countries in the form of interest, amortization and profits. That movement had begun in the 1960s, when the provision of aid had been much greater and when debt servicing had represented $8 billion, which had left a net transfer of little more than $5 billion.

4. According to studies by the UNCTAD secretariat, about 11 per cent of developing countries' export earnings in 1973 had flowed back from those countries in the form of amortization and interest. Those irrefutable facts, which were mainly the consequence of a growing deterioration in the terms of trade between the developing and the industrialized countries, had been acknowledged in General Assembly resolutions 3201 (S-VI), 3202 (S-VI) and 3362 (S-VII) and particularly in Conference resolutions 94 (IV) and 96 (IV), which had recommended, inter alia, that the public debt of the developing, least developed and most seriously affected countries should be cancelled and converted into grants.

5. It was necessary to bear in mind that the capacity to repay loans depended essentially on the productivity of investment. Grants were an absolute necessity for the least developed countries and the most seriously affected countries, in which most investments were of low or uncertain productivity and were often used for projects which could neither expand exports nor substitute for imports. Furthermore, unforeseen changes in the structure of external demand, the competitiveness of substitutes, new restrictions imposed by developed importing countries or unforeseen expansion in world supply could render a project non-viable.

6. As a land-locked country, Afghanistan was doubly disadvantaged, since its debt-servicing and balance-of-payments problems were further aggravated by lack of access to the sea and consequently by grossly inflated transport, transit and transhipment costs, which, since the late 1960s, had placed it in the front rank of the least developed and most seriously affected countries. Debt-servicing amounted to over 25 per cent of its export earnings; the total outstanding external indebtedness amounted to over $600 million and was expected to reach $1 billion in 1980.

7. His Government therefore wished to express its appreciation to Canada, Sweden, the Netherlands, Switzerland and all other countries which had already taken positive steps to convert into grants certain loans made to the least developed and most seriously affected countries. Following their example, the other developed countries should realize that the debt problem of developing countries could not be solved by the traditional ad hoc approach. They should consider debt relief or a legitimate form of aid and should increase the quantity and improve the quality of their loans. Furthermore, debt relief ought to be timely, since to delay remedial action until the debt crisis had reached really serious proportions greatly prejudiced the growth and economic stability of the developing, and particularly of the least developed, countries.

8. It was well known that, with a few exceptions, the modest target of 0.7 per cent of gross national product for official development assistance (ODA), to which the developed countries had reaffirmed their commitment at the seventh special session of the General Assembly, had not been reached. The steady decline in the net transfer of resources was particularly disturbing in view of its catastrophic effects on the balance of payments and external indebtedness of the least developed and most seriously affected countries.

9. Responsibility for the present crisis could not be imputed to mismanagement of the economy, as some Board members had hinted. Debt crises were, in fact, often preceded by extreme pressure on the balance of payments, by a relatively high rate of inflation, by considerable deficits in State budgets, by a flight of capital and, in certain cases, by heavy foreign borrowing on hard terms. These trends created an erroneous impression of mismanagement of the economy, since it was easy, in such circumstances, to mistake the symptoms of the problem for its substance. That diagnostic error could have disastrous consequences for the victim countries.

10. Projects financed by foreign capital could obviously exert heavy pressure on the balance of payments of the developing and least developed countries long before such projects began to help those countries to increase their export earnings or reduce their import costs. It was also evident that it was not the size or even the rate of debt servicing that was important, but rather the proportion of foreign exchange that it absorbed. Failure to recognize those two fundamental points would result in an ever-increasing outflow of real resources from the developing to the developed countries; that would not only make the 0.7 per cent and 1 per cent targets more difficult to attain but would also render them inadequate in relation to the prices resulting from the increased debt of the developing countries. In addition, therefore, as partial and palliative measures such as moratoria and debt reschedulings, more effective forms of debt relief should be studied and formulated.

11. The capital made available should be in line with the productivity of investment and with the ability of the countries concerned to use the proceeds in order to increase their foreign exchange resources. The establishment of a link between special drawing rights (SDRs) and development financing was another important area in which results had failed to meet expectations. Among other possible long-term measures, the establishment of an interest rebate fund to reduce, by compensatory payments, the rate of interest on loans and credits, which were of primary importance for the economic expansion of the developing countries, might be envisaged. In that connexion, he pointed out that, in resolution 3029 (XXVII), the General Assembly had requested the Board to study, inter alia, the desirability and feasibility of the establishment of a special fund for the financing, and/or compensation of the interest on the external debt of the developing countries.

12. The debt problem would tend to diminish to the extent to which new machinery was established for effecting a larger and continuing transfer of resources to the developing countries on reasonable and less onerous terms. Among the long-term measures envisaged for that purpose, the establishment of a link between SDRs and development financing would be particularly effective now that the world liquidity situation was more favourable, since it would enable developing countries to increase their liquidity without any surrender of their real resources. The effectiveness of such a link had been recognized at least since the annual meeting of the International Monetary Fund (IMF) held in 1970.

13. In conformity with the recommendation made by the Conference at its first session, it might also be interesting to study the possibility of repayment of loans by developing countries in their national currencies through bilateral or regional

arrangements, payment unions, credit insurance or other appropriate measures. The IMF could play a useful role in that connexion, either jointly or in consultation with the World Bank. Furthermore, interest rates for development loans made to developing countries, and particularly for those made to the least developed countries, should take the repayment capacity of the borrowing country into account. Loans for the purchase of capital equipment and for project assistance should not be tied to purchases in donor countries.

14. Time was of vital importance for the solution of the debt problem; the international community could not allow itself to become lost in academic discussion while the economic and social development of a large section of humanity was at stake. In the context of new economic relations based on justice and co-operation, immediate and effective debt relief for the least developed and the most seriously affected countries, as provided for in Conference resolutions 94 (IV) and 98 (IV), had become imperative. Afghanistan hoped that the current session would not disappoint the hopes of the developing countries, which were prepared to do their utmost to solve the fundamental debt problem in the light of the new international economic order.

15. Mr. ADENIJI (Nigeria) said that the historic character of the present session was due less to its ministerial level than to the importance of the subject to be tackled. Finance, and consequently the problem of the external indebtedness of the developing countries, was the principal obstacle in the way of the development of those countries and the establishment of a new international economic order. It was therefore right that a ministerial session of the Board should have been convened to deal with the problem at a high political level.

16. It appeared that in recent years a deliberate attempt had been orchestrated not only to distort the nature of the problem, but also to misinterpret the proposals for its solution put forward by the developing countries. The result had been a certain confusion which had affected both the electorate and the elected in the major creditor countries and had led to off-hand treatment of the proposals of the developing countries. That had been the reason for the failure of the fourth session of the Conference and of the North-South dialogue to come to grips with the debt problem, and it also explained the almost tutorial approach adopted by the Intergovernmental Group of Experts and at the part of the Board's session held in January 1978.

17. Meanwhile, the burden of debt had grown heavier, particularly for those countries least able to bear it, and the economic outlook was daily becoming grimmer for the poorest countries, which were sacrificing their development in order to meet debt obligations. Those responsible for taking decisions at the present ministerial session would have to assume their responsibilities, face the situation as it really was and decide on effective measures to alleviate the crushing debt of the developing countries.

18. The disruption of the world economy, referred to by the representative of Zaire in his statement setting out the position of the Group of 77 on the problem of indebtedness, manifested itself in various forms in the developed and in the developing countries. Inflation and recession in the developed countries had resulted in a sharp reduction of the export earnings of the developing countries which had been obliged to reduce their imports owing to lack of foreign exchange, largely absorbed by debt servicing, and to continued borrowing on very hard terms in order to maintain the barest minimum rate of growth. His delegation stressed the need, in studying the problem, for political vision and economic realism which would lead to a viable and lasting solution. In its opinion, the debt problem of the developing countries should be seen in its proper context, in other words in relation to the development objectives of the new international economic order, improvement of the social and economic well-being of the majority of mankind, who lived in the third world, and the consistent of the international community to support and not to retard, the efforts of the developing countries to achieve those objectives.

19. The developing countries had had to extend themselves, severally and collectively, to the fullest limit in the face of severe constraints imposed on them by the international economic relationships which had hitherto existed. The fact that debt servicing had swallowed up nearly all the foreign exchange resources of the least developed countries had had serious implications for the execution of their economic and social development programmes and therefore called for urgent and effective remedial action in the context of international economic co-operation.

20. It could not be said that the developing world was lacking either in individual or collective initiative in the context of economic co-operation and collective self-reliance among all developing countries, whether at the subregional, regional or inter-regional level. Such action required the support of the international community, particularly of the developed countries in keeping with the commitments into which they had entered. In fulfilling those commitments, the developed countries should appreciate the continuous difficulties being created for developing countries by their economic policies and practices, rather than seek to make others responsible for the soaring debt of the developing countries.

21. It was obvious that the increasing debt burden of the developing countries was a consequence of the adverse effects of recession and inflation in the industrialized countries coupled with their protectionist policies. The terms of trade of the developing countries had deteriorated sharply, especially in the last four years; developing countries of the African continent had been the hardest hit, since the terms of trade of the region had fallen from 97 in 1974 to 93 in 1976, a drop of nearly 10 per cent. Meanwhile, the effect of uncontrolled inflation and currency instability in the developed countries had continued to whittle down drastically the real value of the export earnings of all developing countries without exception.

22. It was perhaps too much to hope that the Board would, given the time at its disposal, be able to solve all the problems of debt during the session, but it might not be too much to expect that it would solve some of them, in particular the two most urgent ones. The first problem was the situation of the least developed countries, which called for immediate action. The official debt of those countries should be totally written off. The initiative taken along those lines by Sweden, the Netherlands, Switzerland and Canada had shown that that part of the proposal of the Group of 77 was not utopian and that it was within reach of all creditor countries. The second problem was the urgent need to re-organize debt operations so that they did not, as was their tendency at present, infringe the sovereignty of the country concerned nor disrupt its development programme.

23. Mr. RAHMAN (Bangladesh) said that his delegation had participated actively in the formulation of proposals put forward by the Group of 77 for dealing with the important question of the indebtedness of developing countries. The difficulties that many of those countries, particularly the least developed among them, were facing to maintain and accelerate their development process despite the crushing burden of their external indebtedness were well known, as was the nature of the various solutions. What was needed was recognition by the developed countries of the gravity of the situation and a readiness to consider seriously the proposals made by the Group of 77.

24. Bangladesh was one of the least developed countries. In addition to the difficulties experienced by all developing countries, it had many other problems: over-population, scarcity of natural resources and an inadequate infrastructure. Those structural problems were further compounded by the present world trade situation and, in particular, by the events of the early part of the decade, which had created an extremely critical balance-of-payments position and had led to the slowing down and even diversion of his country's development endeavours. Like many other countries in the 'least developed' category, Bangladesh had failed to achieve the economic growth rate set in the International Development Strategy. The country's debt servicing burden represented 20 per cent of its total current export earnings and was likely to grow worse when the amortization of various earlier loans fell due in the mid-1980s, which would imply a serious threat to its economic growth. His delegation therefore hoped that the present session at ministerial level would lead to mutually acceptable solutions and that the developed countries would approach the question of debt not from a strictly financial angle but would have regard also to the sufferings of peoples who were struggling to improve their lot.

25. The Group of 77 had proposed that the outstanding official debts of the least developed countries, of the landlocked countries and of the island developing countries should either be cancelled or be converted into grants and that the debts of the other most severely affected countries should receive the same treatment or, as a minimum, be recomputed on International Development Association (IDA) terms. His delegation strongly supported those proposals and urged the Board to give due consideration to them. In view of the specific economic problems faced by the least developed countries, the international community had already decided, in Conference resolution 93 (IV), that all

bilateral official development assistance should be provided essentially in the form of grants. It was now simply a question of applying the present terms and conditions of aid to past loans.

26. The recent Meeting of Multilateral and Bilateral Financial and Technical Assistance Institutions with Representatives of the Least Developed Countries had recommended in particular (TD/B/601, Part Two) that donors, in co-operation with the least developed countries, should actively seek ways to increase the flow of official development assistance to those countries and, if possible, to double it, which would assist the least developed countries to achieve the minimum growth target of 3.5 per cent per capita per year in real terms set in the International Development Strategy. His delegation sincerely hoped that that target, unanimously recommended by the international community, would be achieved by 1980.

27. That meeting had adopted many other important recommendations including an increased proportion of local cost financing, elimination of delays in disbursement, consideration of longer-term benefits of economic assistance, rather than an immediate return from projects or programmes, and untying of economic assistance. The developed countries should take urgent measures to give effect to those recommendations which would give the least developed countries an opportunity to break out of the vicious circle of economic stagnation.

28. His delegation also attached great importance to future debt reorganization and to solution of the problem of the commercial debts of the developing countries concerned. It hoped that the Board would accept the proposals of the Group of 77 for the establishment of guidelines for future debt operations and for dealing with the problems of commercial debts.

29. The unending debates and dialogues at successive sessions of the Conference had been concerned essentially with the establishment of the new international economic order, of which the basic element was the elimination of the disparity in living conditions between the one third or less of the world's population forming the "haves" and the two thirds or more constituting the "have-nots". Ministers should combine their efforts to abolish that inequality and to achieve positive results before the fifth session of the Conference, so that successive sessions did not end in institutionalizing the despair, frustration and anger of the world's vast majority of the underprivileged, victims of inequalities inherent in the institutional arrangements in international trade and commerce and monetary systems. A radical transformation of such inequitable institutional arrangements was needed and it was not sufficient merely to tinker with them by periodic ad hoc adjustment.

30. Mr. COOPER (United States of America) said that his country attached great importance to the maintenance of a constructive dialogue with the developing countries. It shared the common goal of sustained prosperity and development which would enhance the quality of life among all peoples. In particular, it recognized the special problems of the developing nations and it therefore took very seriously its responsibility to co-operate with those nations in order to improve and strengthen the international economic system in ways that increased their participation in the system and the benefits they derived from it.

31. In the past few years, world-wide inflation and recession, aggravated by the rise in the price of oil, had made balance-of-payments management very difficult for most oil-importing countries. Strain had been placed on the international economy and had increased the need for greater attention on the part of Governments and international financial institutions. Despite the magnitude of the problems, the major countries had co-operated in maintaining the liberal trade and payments system. They had taken steps to adjust their economies to the new situation and to finance payments deficits while necessary, longer-term adjustments were being made. They had also adopted numerous measures to bolster the international system and, in particular, to alleviate some of the problems faced by developing countries. Such measures included liberalization of the IMF compensatory financing facility to stabilize export earnings; use of the proceeds from the sale of IMF gold for to set up a trust fund for the poorest countries; expansion of IMF quotas and drawing rights to help members to cope with balance-of-payments problems, and an increase in the Fund's resources through the oil facility and the proposed supplementary financing (Witteveen) facility, with the aim of ensuring adequate official financing to encourage countries experiencing severe payments problems to adopt orderly corrective measures. In addition, a commitment of $7.6 billion had been made for the fifth replenishment of IDA, commodity agreements had been negotiated to stabilize the coffee and sugar markets, and the International Fund for Agricultural Development (IFAD) had been established to help the poorest countries improve their ability to meet their food needs.

32. Furthermore, at the Conference on International Economic Co-operation, the industrialized countries had agreed to increase ODA substantially, to contribute to a special action programme to help the poorest countries, to support a general capital increase for the World Bank that would permit real increases in lending, with an increased emphasis on energy development, and to negotiate a common fund for commodities.

33. The world economy was recovering from the 1974-1975 recession, but progress had been slower than expected. While the external payments problems encountered by most countries since 1973 had in the main become more manageable, individual countries, both developed and developing, were still grappling with large payments deficits, slow growth and high rates of unemployment and inflation. The magnitude, duration and geographical extent of those problems reflected the seriousness of the shocks suffered by the world economy. At the same time, the ability of countries to adjust to those shocks and to finance their external payments deficits in the interim bore witness to the resilience of the world economic system.

34. It seemed that the problem of large payments imbalances would last at least until the end of the decade. Hence, a period of prolonged economic adjustment and structural change still had to be faced, a period in which it would be essential to achieve close economic co-operation on the primary issues affecting the economic well-being of both developed and developing countries, such as the achievement of non-inflationary expansion, a balance between supply and demand in the energy sector and the maintenance of an open trading system. Those factors in proper management of the world economy were the sine qua non for economic progress both in the industrialized world and in the developing world.

35. In order to cushion their economies against the shocks to the world economy, the developing countries as a whole - and also some developed countries - had borrowed on an unprecedented scale. The debts in question were now falling due and many countries were concerned about their ability to service them.

36. In evaluating the implications of external indebtedness, however, it was important to view the present situation in perspective. A rise in indebtedness did not necessarily signify an increase in debt servicing problems. The increases in nominal debt were far less dramatic if allowance was made for the growth in real output and trade in the world economy and for inflation. The export earnings of developing countries which were not members of the Organization of Petroleum Exporting Countries (OPEC) had risen by 85 per cent between 1973 and 1977, but service payments on public and publicly-guaranteed debt had risen by a lesser amount and, despite the substantial increase in debt, the debt service ratio had changed little over that period as the reserves of the countries in question had risen by $20 billion, reaching a level equivalent to nearly four months' coverage of imports. Moreover, although some countries were encountering acute problems, the pattern of external indebtedness was broadly in line with the debt servicing capacity of individual countries. Most of the new debt incurred by the poorer countries had, for example, been highly concessional in nature. The bulk of the debt to private lenders was concentrated in a dozen or so rapidly growing developing countries which had relatively high per capita incomes and fairly diversified economies.

37. The current debt situation of the developing countries was not unmanageable but it did emphasize the importance of maintaining a healthy international economy; otherwise, the debt could become crushing. The situation also highlighted the need for the international community to continue to respond effectively to individual debt servicing problems which called for solutions suited to the countries concerned. In that connexion, the United States and the European Economic Community had submitted a proposal which dealt realistically with the difficulties now faced by the developing countries. The proposal set out guidelines for creditor club operations with the object of ensuring equitable and effective solutions to severe debt problems. It also suggested procedures for providing additional external support for low-income developing countries experiencing structural balance-of-payments problems, of which debt was an element, that would prejudice their development prospects.

38. The United States was particularly concerned about the poorest peoples of the world. Poverty existed in many countries other than the 30 countries designated by the United Nations as the least developed, but the lack of resources made it particularly difficult for those very poor countries to undertake effective development programmes. As the Conference had recognized at its fourth session, the international community should take special measures, in co-operation with the least developed countries themselves. The work of the recent Meeting of Multilateral and Bilateral Financial Technical Assistance Institutions with Representatives of the Least Developed Countries had been a significant step forward in dealing with the special problems of the least developed countries on a co-ordinated basis. The recommendations of the Meeting were concerned with increasing the flow of development assistance to the least developed countries,

expanding their capacity to utilize aid, improving aid administration and management and strengthening the co-ordination of external aid. Those practical and constructive steps should accelerate the flow of development assistance to the least developed countries.

39. Another encouraging initiative on behalf of those countries was the Club du Sahel, which included six of the least developed countries among the eight members from the region. The aim of that multi-donor project was to help the Sahel countries achieve self-sufficiency in food and self-sustaining growth in order to cope with harsh environmental conditions, more particularly drought. As a member of the Club, his country was planning to increase its contribution to the Sahel Development Programme from $50 million in fiscal year 1978 to $90 million in the fiscal year 1979.

40. Since January 1973, the need for special measures in favour of the least developed countries had become a central feature of United States bilateral assistance policy. During the current fiscal year, his country was planning to provide, through the Agency for International Development (AID), bilateral assistance in the amount of $192 million to 21 least developed countries. If Congress approved AID's request, the assistance would be increased by 38 per cent in fiscal year 1979. Moreover, it would, in principle, be provided entirely in the form of grants. Twenty-three of the least developed countries also received food aid which, in 1978, should amount to an additional $155 million. Under recently enacted legislation, those countries were being encouraged, instead of making repayments, to assign the sales proceeds to mutually agreed development programmes designed to enhance the quality of life of the poor. Other United States programmes, such as the Peace Corps and the Overseas Private Investment Corporation, were also of benefit to the least developed countries. In the multilateral trade negotiations, the United States was seeking to improve market access for products which those countries were now exporting or would be able to export as their economies developed. The tariff reduction offer recently made by the United States in the course of the negotiations was a practical step towards meeting those objectives.

41. On the subject of debt, it had to be recognized that, despite considerable efforts, substantial differences of opinion still existed with regard to both the nature of the problem and the types of measures now required. It was clear, however, that there was a common desire to work together to settle that problem for the good of all. In that spirit, he urged Ministers to consider closely the proposal submitted by the United States and the European Economic Community, for it had considerable merit.

42. The international community agreed on the urgency of a response to the special problems of the least developed countries. Significant progress had been made in alleviating the difficulties, but the needs of those countries were still substantial. He hoped that it would be possible for the Board to reaffirm the commitments to those countries made at the fourth session of the Conference. Renewed commitments and acceptance of the joint proposal of the United States and the European Economic Community would do much to enhance North-South relations.

43. Mr. KAZI (Pakistan) noted with satisfaction the presence of so many Ministers, both from developed and from developing countries, which was evidence of the importance they attached to the meeting and of their recognition of the fact that the external indebtedness of developing countries was a matter which called for urgent decisions at a high political level.

44. He welcomed the constructive statements made by a number of countries and, in particular, China's support for the proposals of the Group of 77.

45. His delegation fully endorsed the statement made by the representative of Zaire on behalf of the Group of 77.

46. The world economic and financial situation was still far from satisfactory and its adverse consequences continued to fall most heavily on the poorest of the developing countries. Economic growth rates were persistently low, inflation was still widespread and the external sector of the developing countries remained a source of great concern. It was becoming increasingly difficult for them to meet their debt servicing obligations and, at the same time, maintain the volume of imports required to sustain the pace of development and, hence, from the social standpoint. The international community must, as a matter of urgency, resolve the debt problem in the common interest of both creditor and debtor countries.

47. The proposals of the Group of 77 had clearly defined two areas of action. The first dealt with immediate debt relief for the least developed, developing island and land-locked developing countries and other most seriously affected countries. The second proposal dealt with guidelines for future debt reorganization.

48. The present debt burden of the developing countries could be attributed largely to the onerous terms on which credits had been granted to them in the past, at a time when a more optimistic view had been taken of their economic prospects. The situation had now deteriorated as a result of the recent economic crisis. With the worsening of the terms of trade and protectionist measures that affected their exports, it was more and more difficult for the least developed and the most seriously affected countries to service the debts outstanding. That change in the situation had been recognized by many developed countries which had modified their aid policies and, in certain cases, had started to provide grants instead of loans and to soften the terms of the loans they were now making. In the circumstances, it was reasonable to expect that those countries would also be willing to revise the terms of earlier official loans which had not yet been repaid. Such a way of looking at debt relief made it unnecessary to develop the controversy over the generalized relief and the case-by-case approach. The developed countries were now extending aid to the developing countries on softer terms. Therefore, why should any further case-by-case study be necessary in order to give developing countries the benefit of revised terms for loans outstanding? His delegation felt that one of the most effective ways of supporting the development effort of the low-income countries was to provide them with meaningful and substantial relief from the burden of their external debt, which was seriously hampering their economic development.

49. It was sometimes argued that debt relief for the most seriously affected (MSA) countries would be harmful to their creditworthiness. The very fact that the MSA countries had already been identified as countries with particularly acute external financing difficulties indicated that their debt problem had to be resolved in a special way. Across-the-board measures to reduce their indebtedness would in fact improve their creditworthiness.

50. An increase in the transfer of resources would not by itself be an adequate solution, particularly in the present predicament of the least developed and most seriously affected countries, since that predicament required emergency action. Debt relief was necessary because it had an immediate impact and avoided the time lag between commitment and disbursement. It was untied and was available in its entirety. Moreover, in order to compensate for the absence of debt relief, the increased transfers of ODA had to be "additional". The concept of "additionality" was extremely difficult to apply in practice, especially when the donor countries were still a long way from attaining the 0.7 per cent target.

51. Adoption by the donors of the measures suggested for official debts outstanding would demonstrate that assistance from the rich countries to the poor countries was not governed purely by the commercial morality of an ordinary creditor-debtor relationship but that it was based on a nobler philosophy and was viewed as a process in the establishment of a more just and equitable international economic order, a process which, in the long term, would be beneficial to mankind as a whole. In that connexion, he welcomed the debt relief already granted by Canada, the Netherlands, Sweden and Switzerland, and the very constructive memorandum submitted by the Swedish Government.

52. His delegation also attached great importance to the formulation of guidelines for future debt reorganization. Immediate relief on official debts outstanding would alleviate the present difficulties of the recipient countries, but it was essential to ensure that, as far as possible, such difficulties were avoided in the future. The question of guidelines merited further exploration in a search for areas of convergence between the proposals of the Group of 77 and the joint proposals of the United States and the European Economic Community. His delegation welcomed the establishment of a working group to examine the problem and hoped that it would be able to work out a clear direction for further detailed negotiations on the procedures and institutional arrangements required for future debt operations, in a way which would meet the legitimate interests of creditors and the development objectives of borrowing countries.

53. Mr. DAVE (India) stressed that the ministerial session was not a confrontation of groups of creditors and debtors, but an assembly at the senior political level of responsible members of the international community seeking, in a spirit of mutual understanding and co-operation, resolution of a vital problem of global economic significance. Global development was interdependent in the same way that world prosperity was indivisible, as had been borne out by the recent happenings even between the most affluent economic groups of the world community.

54. It was recognized that that community had not yet recovered from the traumatic effect of international economic events of recent years: the global economic disequilibrium characterized by persistent worldwide inflation, the sharp rise in the price of imports of crucial importance to the developing countries - whose growth rates had remained at unacceptably low levels - combined with a prolonged economic slowdown in the major industrialized countries provided the setting in which the ministerial session was tackling a problem whose solution would improve the economic climate.

55. It would be most unfortunate if, as some recent trends indicated, each country and each economic group and their associates were to take refuge in direct or concealed protectionist measures. It was heartening to observe that world leaders had consistently rejected protectionism, but it was undeniable that there had been some surrender to protectionist pressures which had caused great anxiety. Wise statesmanship and enlightened self-interest demanded measures that would promote the economic convergence of both the developed and developing countries, even if some sacrifices had to be made, provided that the sacrifices contributed not only to the economic development of the poorest countries, but also to the expansion of global demand and the return of the world economy to dynamic growth.

56. It was in that perspective that the problem of the developing countries with low per capita incomes had to be viewed. Too narrow a view should not be taken of the economic situation and prospects of those countries and judgement should not be based on short-term, and often quite superficial, macro-economic indicators. In normal circumstances, those indicators provided a fairly reliable picture of the health of the economy, particularly when applied to the highly integrated and sophisticated systems of the developed market economy countries.

57. However, when such indicators were applied to a low-income developing country such as India, suffering from fundamental structural imbalances and highly vulnerable and sensitive to a rather unfavourable international economic environment, whose annual agricultural output was completely dependent on a single season's rainfall, the superficiality of the macro indicators became only too obvious. World inflation had forced India to take severe measures to contain domestic expenditure and to introduce harsh financial discipline. The country had had to forego imports not only of essential consumer goods but also of several important raw materials, spare parts and machinery for its industries. The result had been an economic slowdown, the effects of which would be felt for some years to come, and the development process would be severely hampered if the volume of investment was insufficient when economic activity picked up.

58. Low-income developing countries struggling with structural disabilities needed the immediate transfer of substantial real resources in a flexible form and assurance that such assistance would be forthcoming for a fairly long period of time. Debt relief should not be limited to assisting debtor countries on the brink of default. It was only a sustained and long-term transfer of real resources in the necessary flexible form that would change the situation to the benefit of all. The policy measures advocated by the Group of 77 offered the most appropriate and timely steps for achieving that objective.

Sweden had stressed at the preceding meeting of the Board that his country's proposal to cancel the ODA debts of the poorest countries was only one of the means of providing debt relief. The Secretary-General of UNCTAD had indicated, in his opening statement, that the solution might lie in bringing the terms of previous official bilateral assistance in line with the current norms applied by the countries members of the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) for the provision of assistance to the least developed countries. In this connexion, his delegation had been encouraged by the statements made by some of the donor countries, which seemed prepared to envisage cancellation, or at least the ex-post correction of the terms of ODA debts contracted by the poorest developing countries. It was to be hoped that the ministerial meeting would adopt a formal decision to that effect.

65. With regard to the operation of private capital markets and the possible role of official financial intermediation, the Secretary General of UNCTAD had suggested that the matter should remain on the agenda of the Board for further consideration, including specific recommendations that might be made at the present session. As a developing country, Israel, which had had some experience of the need to ensure access to financial markets and other sources of private capital, had long recognized the importance of that question for developing countries. The Israeli Government, in a desire to find new approaches, had made two specific proposals.

66. At the first session of the Conference, Israel had submitted the "Horowitz proposal" the idea of the first Governor of the Bank of Israel. That proposal called for a system of government guarantees and an interest equalization fund, which would permit the borrowing of funds on capital markets on commercial terms, the funds raised being lent to the developing countries on soft terms. It was obvious that the idea was still remarkably valid.

67. Subsequently, at the annual meeting of the Board of Governors of the World Bank Group, in 1977, the present Governor of the Bank of Israel had suggested the introduction of a co-financing scheme under which the World Bank would evaluate development projects, even if they exceeded its own financial capabilities. By its supervisory role both in the implementation of projects and in loan servicing, the Bank would pave the way for making commercial co-financing available on capital markets. Furthermore, the loans co-financed by the Bank and by private financial institutions would carry a "cross-default" clause. Thus, the World Bank would provide primarily analytical and supervisory services, with minimal funding. International markets would provide the bulk of the capital needed, and the developing countries to which the World Bank had had to limit the flow of resources would be able to obtain additional resources that would facilitate their economic development.

68. His delegation would furnish all necessary details on both proposals during the deliberations. In the meantime, it hoped that the present session would produce positive results.

69. Mr. BLOKH (Togo) said that the Board had met once again at a level where there should be no lack of political will to take decisions, to consider a matter that formed one of the issues of the new international economic order: the question of indebtedness. The developing countries hoped that they would be able at last to deal with the developed countries as partners in establishing the new world where justice and therefore peace would reign.

70. The representative of Cairo had covered in his statement the pertinent aspects of the debt problem of the developing countries. After reviewing the problems of indebtedness which were mortgaging the development of those countries, the representative of Cairo had proposed solutions for debt relief that would allow the countries concerned to increase their investments and thus import more from the developed countries. That would serve as a catalyst to stimulate the production of the developed countries which was at present stagnating to some extent.

71. It was therefore clear that, in asking for debt relief, the developing countries were inspired only by a desire to participate in the search for solutions that could resolve the international economic crisis which had in fact originated in the developing countries. They did not wish to give the impression of wanting to sacrifice certain interests to the advantage of certain others, but rather to explain once again, without any possibility of misunderstanding, that the interests of all were so closely linked that if they were not dealt with as a whole the world's very existence would inevitably be threatened.

72. The world economic crisis, which was leading the developing countries to bleed themselves white in order to repay their debts, could also lead them to an act of despair. For nearly ten years those countries had been hoping that one day the developed countries would observe an honest partnership, keep their promises and implement the relevant resolutions and decisions, in particular the Charter of Economic Rights and Duties of States and the new international economic order. But the developed countries still wished to keep the developing countries in their former condition and refused to accept the development of mankind's evolution towards the definition and establishment of a new world. The world was thus divided in two: into the haves and the have-nots, the developed countries and the developing countries, according to criteria established, ironically, by the developed countries themselves.

73. It was true that the developed countries had proposed solutions designed to help the developing countries, but much remained to be done and the poor countries would have every reason to rebel against the rich countries which were making them aware of their poverty while denying them the means to become rich. The various negotiations that had taken place within the United Nations, at the Conference on International Economic Co-operation and elsewhere had not yet brought the developing countries the gleam of hope they were awaiting. At the present Ministerial meeting, therefore, the developed countries should give practical consideration to means of enabling the developing countries to emerge from their present state and bringing them towards the new international economic order.

74. It was worth recalling some of the basic principles of the new economic order, namely that prosperity was indivisible, that economic development was an international responsibility if only because of certain historical factors of which some countries took advantage so as to refrain from any positive action to promote the development of the developing countries, and that the concept of development should have a broader, more realistic and more human dimension and should cover different economic sectors. The new economic order implied that there should be coherent and dynamic economic collaboration aimed at solving the problems of world trade and raw materials, improving the terms of trade and encouraging industrialization and the transfer of technology.

75. He stressed the relationship of cause and effect between all the factors affecting the development of developing countries and the establishment of the new international economic order. If a country was to develop, it had to industrialize; to industrialize it had to have financial and technical resources; and to have those resources it had to buy and sell; to do that it had to produce or to have sold. In the present circumstances that meant, in the case of the developing countries, to produce or to sell commodities and raw materials, since, for semi-manufactures, they had to face the competition of the developed countries and had to submit to conditions of market access such that many of them found themselves with surpluses, despite the commitments by developed countries to open their markets to such goods. Only the commodities that were indispensable to the industries of developed countries were able to penetrate their markets without difficulty. However, the prices of those products were so low that the earnings from their export were not sufficient to cover the cost of importing the manufactures necessary for development. It was the eternal problem of the deterioration of the terms of trade which prevented the developing countries from becoming industrialized and from establishing the social and economic infrastructures they needed. As a consequence they therefore had to seek external assistance and, consequently, the cancellation of both official and private debts.

76. Thus the basic cause of the indebtedness was the deterioration of the terms of trade. If the developing countries obtained better prices for their commodities or for their semi-manufactures, they would be able to meet their development costs and would not be obliged to accumulate debts to an extent that was causing concern for some of their investments. It was therefore essential to review the prices of commodities.

77. The problem of the indebtedness of developing countries should be seen in the overall context of their development and should not be considered as an inherent feature. In incurring debts in order to develop, the developing countries were merely seeking to satisfy the legitimate aspirations of their peoples under the conditions of the new international economic order, whose long-term objective was three-fold: to accelerate the economic and social progress of the developing countries in the interest of the development of the world economy as a whole; to abolish the injustice and the inequality from which a large part of mankind was suffering; and to bridge the huge gap separating developing from developed countries. It was to achieve those ends that the developing countries were obliged to make large investments and to call on outside help, with all the attendant consequences.

78. The developing countries had thought that they would be able to repay their debts with their export earnings. But, those earnings having ceased to exist, they were compelled to resort to other sources of financing. As a number of delegations had pointed out, the terms of loans had become increasingly onerous, not to mention the loss in value of the initial amounts of loans due to inflation. As the world crisis had further aggravated the situation of the developing countries, a global solution must now be found to help those countries to stimulate and accelerate their growth.

79. As a first measure, it was necessary to improve the present financial situation of the developing countries. Many of them had already taken measures at the national level. His own country had sought to improve its situation by financial reforms, by encouraging exports, by economy imports, by improving the balance of invisibles and by implementing its third development plan. The lenders, for their part, must take steps to encourage the developing countries in their efforts. But the protectionist trend in the developed countries tended to nullify much of what was done at the national level, and many developing countries were unable to improve their financial situation because of the difficulty of marketing their products and because of their crushing burden of debt, which affected not only their budget but also their balance of payments, as it absorbed up to a fifth of their total export earnings. Transfer of profits and interest on private investment had to be added to the amount of the official debt.

80. In such a serious situation, the most urgent matters had to be dealt with first. Certain States which were aware of the problem and of the need for international solidarity had converted into grants the loans they had made to some developing countries. Togo hoped that that example would be followed by other countries and would be extended to a larger number of developing countries. Another solution would be to grant debt relief to the developing countries on simple, uniform and generous conditions which would cover all official debts or those guaranteed by the State, including loans by international institutions such as the World Bank, IDF, the International Finance Corporation and the IDA. Private debt could be the subject of negotiation between the parties with the aim of reaching a reasonable agreement. Loans which various countries obtained under the authority of an international body should be consolidated in one, two or three loans on specially favourable conditions, for example a rate of interest of 2 per cent, a repayment period of 45 years and a moratorium of 10 years. In that way the developing countries would have the benefit of considerable additional aid which they could use for new investment, while the creditor States, in helping their debtors, would have an assurance that their loan capital would be fully repaid.

81. However, it was of no use arranging favourable terms of financing if the resources thus obtained were absorbed by crippling debt service. It was therefore important, when applying new conditions for future financing, to resolve the problem of old debts. In that connexion it was worth noting that the Council of Ministers of the Organization of African Unity had recently adopted a resolution requesting the Governments of all developed countries to accept, at the ministerial session of the Trade and Development Board, the proposals of the developing countries concerning debt relief measures.

82. The solutions to the problem of indebtedness should be effective and should fit into the overall planning for the establishment of the new international economic order. They should also be such as to avoid all possible obstacles, in particular the revival of protectionism. If the present protectionist tendency continued, the developing countries would have much less prospect of accelerating their development and all hope of establishing any new order would be lost.

83. The developing countries, as partners of the developed countries, considered that the present deliberations were an entirely suitable framework for taking

decisions aimed at solving the debt problem. They constituted, in fact, a unique opportunity, and the degree of understanding which would prevail in the future relations between developed and developing countries would largely depend on the decisions to be taken.

84. Mrs. OESTERGAARD (Denmark), speaking on behalf of the United States, the countries members of the European Economic Community, Australia, Austria, Canada, Japan and Switzerland, read out a draft resolution submitted by those countries (TD/B/L.498).

85. The PRESIDENT said that the draft resolution would be referred to the Working Group which would report its conclusions to the Committee of the Whole.

The meeting rose at 5.55 p.m.